# REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON EDUMBE MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the financial statements of the eDumbe Municipality set out on pages … to ..., which comprise, the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets and the cash flow statement and the statement of comparison of budget information with actual information for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013)(DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004)(PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of eDumbe Municipality as at 30 June 2014, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

## Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## Significant uncertainties

8. As disclosed in note 45 to the financial statements, the municipality is the defendant in a number of lawsuits related to contracts entered into by the municipality. The municipality is opposing some of the claims, as it believes the claims to be fraudulent or unwarranted. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result, has been made in the financial statements.

## Going concern

9. As disclosed in Note 46 to the financial statements, the municipality incurred a net loss of R4,76 million during the year ended 30 June 2014, and the municipality's current liabilities exceeded its current assets by R16,49 million as of that date. These conditions, along with other matters as set forth in note 46, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

## Material losses

10. As disclosed in note 41 to the financial statements, material electricity losses, to the amount of R3,64 million (6,84 million kilowatts), representing 37,36%, were incurred as a result of technical and non-technical distribution losses.

## Additional matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## Unaudited disclosure notes

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements, and accordingly, I do not express an opinion thereon.

# REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for the selected development priorities presented in the annual report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2014:

    - Basic service delivery and infrastructure development on pages x to x

15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

16. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the *National Treasury's Framework for managing programme performance information (FMPPI)*.

17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

18. The material findings in respect of the selected development priority are as follows:

### Basic service delivery and infrastructure development

### Usefulness of information

### Consistency of objectives, indicators and targets

### Reported objectives/ targets not consistent with planned objectives/ targets

19. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total 59% of the reported objectives and 29% of the reported targets were not consistent with those in the approved annual performance report and approved service delivery agreement respectively. This was due to the lack of development and implementation of proper performance planning and management practices to provide for the development of relevant performance objectives and inadequate review of the IDP by management and internal audit.

### Reliability of information

### Validity, accuracy and completeness

20. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Overall, 35% of the targets or significantly important targets were not reliable because I was unable to obtain sufficient appropriate audit evidence for 35% of the targets. In addition, 29% of the targets were not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures for the recording, monitoring and reporting of actual achievements and accountability in this regard by senior management.

## Additional matters

21. I draw attention to the following matters below. These matters do not have an impact on the predetermined objectives audit findings reported above.

## Achievement of planned targets

22. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on usefulness and reliability of the reported performance information for the selected development priority reported in paragraphs 19 to 20 of this report

## Material adjustments to the annual performance report

23. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for basic service delivery and infrastructure development.. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information.

## Compliance with legislation

24. I performed procedures to obtain evidence that the municipality had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable legislation as set out in the general notice issued in terms of the PAA are as follows:

## Annual financial statements

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of receivables, revenue, retirement benefit obligation, property, plant and equipment and expenditure identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

## Expenditure management

26. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA

27. Reasonable steps were not taken to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.

## Revenue management

28. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.

## Internal control

29. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

## Financial and performance management

30. The material adjustments to the financial statements and annual performance report were caused by weaknesses in record keeping due to inadequate skills and a slow response by management in the departments responsible for reporting. The slow response by management in addressing prior year findings and risks raised then also resulted in legislation not being adhered to.

Pietermaritzburg

28 November 2014

AUDITOR-GENERAL
SOUTH AFRICA

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